



## Todd County Water District

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Post Office Box 520  
617 West Main Street  
Elkton, Kentucky 42220  
Phone Number 270 265-2229

September 20, 2006

**RECEIVED**

SEP 22 2006

**PUBLIC SERVICE  
COMMISSION**

Public Service Commission of Kentucky  
Attention: Michael F Burford, Director  
Division of Filings  
Post Office Box 615  
Frankfort, KY 40602-0615

RE: Case No. 2003-00088

The Rates approved in the August 1, 2003 filing are sufficient to meet the current operating expenses and annual debt service requirements of the Todd County Water District.

Enclosed with this letter is a copy of our most recent audit.

Todd County Water District

Kathy Conyea  
Office Manager

Enclosure  
kc

9/14/06 Reminder letter

# TODD COUNTY WATER DISTRICT

A COMPONENT UNIT OF  
TODD COUNTY, KENTUCKY

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## FINANCIAL STATEMENTS

December 31, 2005



# CONTENTS

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INDEPENDENT AUDITORS' REPORT .....	1
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## REQUIRED SUPPLEMENTARY INFORMATION:

Management's Discussion and Analysis.....	4
---	---

## FINANCIAL STATEMENTS:

Statement of Net Assets.....	10
Statement of Revenues, Expenses and Changes in Net Assets .....	12
Statement of Cash Flows .....	14
Notes to Financial Statements.....	16

## REQUIRED SUPPLEMENTAL INFORMATION:

Budgetary Comparison Schedule .....	29
-------------------------------------	----

## SUPPLEMENTAL INFORMATION:

Schedule of Expenditures of Federal Awards.....	31
Notes to the Schedule of Expenditures of Federal Awards .....	32

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	33
--	----

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	35
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	37
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## INDEPENDENT AUDITORS' REPORT

Commissioners  
Todd County Water District  
Elkton, Kentucky

We have audited the accompanying financial statements of the ***Todd County Water District***, a component unit of Todd County, Kentucky, (the "District") as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2005, and the changes in financial position and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

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testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky  
February 7, 2006

# **Required Supplementary Information**

## **Management's Discussion and Analysis**

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ended December 31, 2005**

The Todd County Water District's discussion and analysis is designed to offer readers of the District's financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2005. Readers are encouraged to read the Management's Discussion and Analysis in conjunction with the transmittal letter included in the audit and the District's financial statements.

● **FINANCIAL HIGHLIGHTS**

- ▶ The total assets of the District exceeded its total liabilities at the close of the most recent fiscal year by \$3,900,757. Of this amount, \$1,048,313 may be used to meet the District's ongoing obligations to citizens and creditors. It is the District's intent to use these assets to operate the District. The restricted net assets are earmarked for projects and debt service requirements in future years.
- ▶ The District has \$3,284,600 in long-term debt, net of current portion.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) Financial Statements; and 2) Notes to the Financial Statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**Financial Statements**

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenue and expenses and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The District adopts an annual budget. To demonstrate compliance with the adopted budget, budgetary comparison statements have been provided, in accordance with Governmental Accounting Standards Board, Statement No. 34.

The financial statements can be found on pages 10 through 15 of this report.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 27 of this report.

### ● FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded current liabilities by \$3,900,757.

#### Net Assets for the Year Ended December 31, 2005 and 2004

	2005	2004
Current assets	\$ 1,583,249	\$ 1,256,592
Capital assets	6,843,461	5,971,040
<b>Total Assets</b>	<b>8,426,710</b>	<b>7,227,632</b>
Long-term liabilities	3,284,600	3,386,207
Other liabilities (current)	1,241,353	257,074
<b>Total Liabilities</b>	<b>4,525,953</b>	<b>3,643,281</b>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	2,822,131	2,486,134
Restricted	30,313	318,425
Unrestricted	1,048,313	779,792
<b>Total Net Assets</b>	<b>\$ 3,900,757</b>	<b>\$ 3,584,351</b>

By far the largest portion of the District's net assets in the amount of \$2,822,131 reflects its investment in capital assets (e.g., infrastructure, buildings, equipment, and vehicles). The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Unrestricted net assets in the amount \$1,048,313 may be used to meet the District's ongoing obligation to customers and creditors. The remaining restricted net assets are for replacement reserves for future years.



At December 31, 2005 and 2004, the District is able to report positive balances in all categories of net assets.

### Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Revenues		
Water service revenues .....	\$ 1,472,342	\$1,478,736
Other revenues .....	54,809	48,182
<b>Total Operating Revenues</b>	<u>1,527,151</u>	<u>1,526,918</u>
Expenses		
Water operations .....	1,402,087	1,325,738
<b>Total Operating Expenses</b>	<u>1,402,087</u>	<u>1,325,738</u>
<b>Net Operating Income</b>	125,064	201,180
Non-operating revenue (expenses), net.....	<u>139,522</u>	<u>(105,245)</u>
<b>Income Before Capital Contributions</b>	264,586	95,935
Capital contributions .....	<u>51,820</u>	<u>30,840</u>
<b>Increase in Net Assets</b>	<u><u>\$ 316,406</u></u>	<u><u>\$126,775</u></u>

### ● REVENUES

**Water sold** is the Water District's primary source of revenue. For the fiscal year of 2005, revenue from water sold was \$1,472,342 decrease from \$1,478,736 in the prior year. Some water sales were billed at wholesale rates causing a decrease.

**Capital grants and contributions** totaled \$51,820 for fiscal year 2005. These funds were received from customers for tap on fees.

**Unrestricted investment earnings** totaled \$ 12,313 for fiscal year 2005. The District earned its investment revenues by placing idle cash in Certificates of Deposits and Reserve Funds.

**Debt service and facility reserve—City of Elkton** totaled \$57,640 for fiscal year 2005. The City of Elkton is required to pay the District payments adequate to cover the debt service allocated to the former water supply facility and the Water Supply Facility Reserve Fund on an annual basis.

**Other operating revenues** totaled \$54,809 for the fiscal year 2005 which was a small increase from the prior year.

## ● EXPENSES

**Operating expenses** totaled \$1,402,087 for fiscal year 2005. These expenses relate directly to the every day operations of the District such as payroll, transmission and distribution, and purchased water.

**Interest expense** totaled \$166,833 for fiscal year 2005.

Change in net assets for 2005 was \$316,406 as compared to 2004 which was \$126,775.

## ● CAPITAL ASSETS AND DEBT ADMINISTRATION

### **Capital Assets**

The District's investment in capital assets at December 31, 2005, amounts to \$6,843,461 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, equipment and vehicles.

Major capital asset events during the current fiscal year include the following:

- ▶ Water Tank and Water Line Extension Project

Additional information on the District's capital assets can be found in Note 4 of the financial statements.

### **Long-Term Debt**

Long-term debt, including current portion, and the current balance of interim financing of the expansion project totaled \$4,021,330 at December 31, 2005. Outstanding debt at year-end was to finance the District's infrastructure. Only activity for debt was the servicing requirements and borrowing for the current expansion project.

### **Operation and Maintenance Budgetary Highlights**

The District's O & M budget was increased by 3 percent over the prior year. Variances between the revenues that were budgeted and the actual amounts collected are not significant.

Any variances are not expected to have a significant effect on future services or liquidity of the District.

## **Economic Factors and Next Year's Budget and Rates**

The District's primary source of revenue is water sold to customers. This revenue will vary along with the number of customers the Water District has at any given time.

The cost of water and line loss are areas the District is trying to manage as they have the most direct impact on the operations of the District.

During the current fiscal year, the Operation and Maintenance account decreased to \$177,076.

### **● REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information should be addressed to Todd County Water District, P O Box 520, Elkton, KY 42220.

# Financial Statements



## LIABILITIES AND NET ASSETS

### CURRENT LIABILITIES

Accounts payable .....	\$ 406,011
Accrued liabilities .....	15,075
Accrued interest payable .....	83,537
Current portion of notes payable .....	102,800
Short term notes payable .....	633,930
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,241,353</u>

<b>LONG-TERM DEBT</b> , net of current portion.....	<u>3,284,600</u>
<b>TOTAL LIABILITIES</b>	<u>4,525,953</u>

### NET ASSETS

Invested in capital assets, net of related debt .....	2,822,131
Restricted .....	30,313
Unrestricted .....	1,048,313
<b>TOTAL NET ASSETS</b>	<u>3,900,757</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 8,426,710</u></u>
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The accompanying notes are an integral part of the financial statements.



**NONOPERATING REVENUE (EXPENSES)**

Grant proceeds .....	236,402
Interest income .....	12,313
Debt service and facility reserve — City of Elkton.....	57,640
Interest expense .....	(166,833)
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>139,522</u>

<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	264,586
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<b>CAPITAL CONTRIBUTIONS</b> .....	<u>51,820</u>
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<b>CHANGE IN NET ASSETS</b>	316,406
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<b>NET ASSETS — BEGINNING</b> .....	<u>3,584,351</u>
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<b>NET ASSETS — ENDING</b>	<u><u>\$ 3,900,757</u></u>
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The accompanying notes are an integral part of the financial statements.





**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES:**

Operating income .....	\$ 125,064
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation .....	250,254
Change in:	
Restricted cash .....	(2,916)
Accounts receivable .....	(23,918)
Inventory .....	2,431
Prepayments .....	(1,794)
Accounts payable .....	347,273
Other current liabilities .....	1,385
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 697,779</b>

The accompanying notes are an integral part of the financial statements.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

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**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

● **Nature of Business**

The *Todd County Water District* (the "District") was chartered in 1971. It is a distributor of water under the authority of the Public Service Commission of Kentucky. The District provides service to customers in Todd County and a small area in Logan County.

● **Financial Reporting Entity**

The District is governed by a five-member board (the "Board"). The criteria for determining the District as a component unit of Todd County, Kentucky, the primary government, as set forth in GASB No. 14, *The Financial Reporting Entity*, is financial accountability. The majority of the commissioners of the Board are appointed by the Todd County Judge Executive subject to the approval of the Todd County Fiscal Court. The District can provide a financial benefit to or impose a financial burden on the primary government. The Board has the power and authority to acquire, construct, maintain and operate the waterworks system.

● **Basis of Presentation**

The records of the District are maintained on the accrual method of accounting. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

Operating revenues within the proprietary fund are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

GASB 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- ▶ *Invested in Capital Assets, Net of Related Debt* — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- ▶ *Restricted* — This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- ▶ *Unrestricted Net Assets* — The component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

● **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

● **Investments**

Investments consist of certificates of deposit and are recorded at cost. The cost of investments approximates their fair value. KRS 66.480 permits the District to invest in U.S. Treasury obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit and the Commonwealth of Kentucky investment pool.

● **Accounts Receivable**

Accounts receivable are stated at the amount billed to customers. The District's operating revenues are recognized on the basis of cycle billings rendered monthly. Accounts receivable are due on the 10<sup>th</sup> of each month. Accounts unpaid on the 25<sup>th</sup> of each month

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

are considered delinquent and service is disconnected. The District provides no allowance for doubtful accounts due to the historical nature of the accounts receivable and the District's ability to disconnect service. Delinquent receivables are written off. New service is denied until all outstanding balances have been settled.

● **Inventory**

Inventory consists of operating supplies and is stated at the lower of cost or market. Cost is determined by first-in, first-out method.

● **Utility Plant**

Expenditures for utility plant with an original cost of \$500 or more are capitalized at cost, while maintenance and repairs are charged to operations when incurred. Depreciation is recorded on the straight-line method over the estimated useful life. Interest costs for fixed asset construction are capitalized.

● **Contributions in Aid of Construction/Capital Contributions**

Contributions in aid of construction consists of tap on fees, contributions from customers and grants. For year 2000 and prior years, the changes in these amounts were reflected in the fund equity section of the financial statements. However, on January 1, 2001, the District adopted GASB Statement 33, which requires activity in these amounts to be reflected in the statement of revenues and expenses as a separate revenue line item.

● **Income Taxes**

The District is exempt from federal and state income taxes under Section 501 of the Internal Revenue Code.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 2: CASH AND INVESTMENTS**

The District maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2005, the carrying amount of the District's deposits was \$1,131,732 and the bank balance was \$1,193,632. Of the bank balance, \$808,306 was covered by FDIC insurance or by collateral held by an institution for the pledging Bank, in the District's name, and \$385,326, was uninsured and uncollateralized.

Cash .....	\$	177,076
Investments .....		633,515
Restricted cash .....		321,341
		<hr/>
	\$	<b>1,131,932</b>

● **Custodial Credit Risk — Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$385,326 was exposed to custodial credit risk as of December 31, 2005.

● **Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

● **Credit Risk**

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 2: CASH AND INVESTMENTS (Continued)**

categories by nationally recognized rating agencies and shares in mutual funds. The District has no investment policy that would further limit its investment choices.

● **Concentration of Credit Risk**

The District places no limit on the amount the District may invest in any one issuer. No more than 5 percent of the District's investments are with any one issuer.

**NOTE 3: CASH - RESTRICTED**

Restricted cash consists of the following at December 31, 2005:

Construction .....	\$	2,642
Water treatment debt reserve .....		19,598
Depreciation reserve .....		30,313
Debt service reserve .....		268,788
		<hr/>
	\$	<b>321,341</b>
		<hr/>

Certain bond agreements require the District to maintain replacement and debt sinking reserves.



**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

**NOTE 4: UTILITY PLANT**

A summary of utility plant activity for the year ended December 31, 2005 is as follows:

	Beginning of Year	Additions	Disposals	End of Year
Land and land improvements .....	\$ 51,542	\$ 7,000	\$ 0	\$ 58,542
Construction in progress .....	0	1,013,243	0	1,013,243
Total Nondepreciable Cost	51,542	1,020,243	0	1,071,785
Capital assets that are depreciated:				
Structures and improvements .....	27,493	0	0	27,493
Wells and springs .....	41,777	0	0	41,777
Distribution reservoirs and standpipes .....	655,926	0	0	655,926
Transmission and distribution mains .....	7,362,848	49,037	0	7,411,885
Hydrants .....	9,900	0	0	9,900
Meters and installations .....	736,617	50,850	0	787,467
Power operating equipment .....	18,487	0	0	18,487
Office equipment .....	75,618	2,544	0	78,162
Communication equipment .....	4,326	0	0	4,326
Miscellaneous equipment .....	98,977	0	0	98,977
Other plant .....	24,000	0	0	24,000
Leasehold improvements .....	37,135	0	0	37,135
Total Depreciable Cost	9,093,104	102,431	0	9,195,535
Accumulated depreciation .....	(3,173,605)	(250,254)	0	(3,423,859)
Utility Plant, Net	\$ 5,971,041	\$ 872,420	\$ 0	\$ 6,843,461

At December 31, 2005, the District has a construction project in progress. The project consists of installing 23 miles of new waterlines and the erection of a water tank. The project has a budget of \$1,827,000, which will be funded by a \$1,100,000 loan, a grant of \$700,000 from USDA Rural Development and \$27,000 from District funds. The project is expected to be completed by September 10, 2006. See Note 5 for short-term borrowings.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 5:     SHORT- AND LONG-TERM DEBT**

On September 20, 2005, the District entered into an agreement with Kentucky Rural Water Finance Corporation for interim financing on an expansion project. The loan agreement is for a total of \$1,100,000 for construction and line extension. The interim finance agreement will be paid off with bonds purchased by USDA Rural Development at the end of construction or by September 30, 2006. The District draws on this account each month for construction payments. As of December 31, 2005 the debt balance was \$633,930.

Long-term debt consists of the following at December 31, 2005:

Revenue bonds payable, payable in annual principal installments, plus interest at 5.0%, maturing in January 2017 .....	\$     896,000
Revenue bonds payable, payable in annual principal installments, plus interest at 5.0%, maturing in January 2027 .....	506,000
Revenue bonds payable, payable in annual principal installments, plus interest at 5.0%, maturing in January 2030 .....	539,000
Revenue bonds payable, payable in annual principal installments, plus interest at 5.0%, maturing in January 2032 .....	181,400
Revenue bonds payable, payable in annual principal installments, plus interest at 4.875%, maturing in January 2036 .....	490,000
Revenue bonds payable, payable in annual principal installments, plus interest of 4.75%, maturing in January 2040 .....	<u>775,000</u>
	3,387,400
Less current portion .....	<u>(102,800)</u>
	<u><b>\$   3,284,600</b></u>

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 5: SHORT- AND LONG-TERM DEBT (Continued)**

Maturities of long-term debt are as follows for the year ended December 31:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 102,800	\$ 178,925	\$ 281,725
2007	109,500	173,642	283,142
2008	113,200	168,099	281,299
2009	119,300	162,312	281,612
2010	126,100	156,203	282,303
2011-2015	729,900	678,023	1,407,923
2016-2020	528,900	451,795	980,695
2021-2025	498,700	322,854	821,554
2026-2030	514,200	191,876	706,076
2031-2035	314,800	93,080	407,880
2036-2040	230,000	25,261	255,261
	<u>\$ 3,387,400</u>	<u>\$ 2,602,070</u>	<u>\$ 5,989,470</u>

**NOTE 6: WATER AGREEMENT**

The District has entered into a water purchase contract with the Logan/Todd Regional Water Commission, whereas the contract requires the Commission to provide water to the District and the rates the District will be charged for the expected water usage are defined therein. The contract will extend for a term of 50 years beginning January 1, 2003. The agreement may be renewed or extended for such term or terms as may be agreed upon by the Commission and the District. Under terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in March 2003; therefore, the Commission is the sole provider

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 6:     WATER AGREEMENT (Continued)**

of water to the District. The agreement does require the District to purchase minimum levels of water from the Commission. If minimum levels are not met, the Commission may charge the District for the shortages.

The City of Elkton, Kentucky (the "City") has a long-term contract with the District for the purchase of treated water. The contract is dated July 16, 1979, and is for a period of 40 years with an amendment dated February 1, 1988. However, on April 1, 2003, the District ceased selling water to the City of Elkton as required by the water agreement with the Commission. Payments made by the City to the District under this contract shall be adequate to cover the debt service allocated to the former water supply facility and the Water Supply Facility Reserve Fund. Payments for debt service and reserve funds are shared by the City and District using a cost sharing and attributable loan allocation formula.

Principal and interest debt service allocated to the water service cost is the actual principal and interest payment on that portion of existing debt attributed to the original construction of the (1) water intake structure, (2) raw water transmission line and pumps, (3) water treatment facility, (4) additional supply line capacity and (5) master meter at City's line.

The debt attributable to the City's allocated original capital cost is \$858,354 with the City's portion of the principal and interest payment being \$52,400 annually. This payment shall be paid to the District on an annual basis.

A Water Treatment Reserve Fund shall be established and maintained per the requirements of the 1979 Bond Ordinance. The City shall contribute the amount equivalent to ten (10) percent of its respective principal and interest payments to this fund. Contributions to the fund shall be made until a level of \$80,000 is reached. Contributions shall be stopped so long as \$80,000 remains in the fund. Whenever the fund shall drop below that amount, the contributions shall be reinstated. This fund shall be maintained throughout the life of the loan and shall be subject to all requirements of the lending agency. Upon completion of all obligations to the lending agency, the fund may be liquidated with the City and District having a vested interest in the fund in accordance to the ratio of their respective payments to the fund.

At December 31, 2005, the long-term water contract with the City of Elkton had not been modified as it pertains to the debt service requirements.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 7:     LEASES**

On August 10, 2001, the District entered into an operating lease agreement with the City of Elkton for office space. The lease is for a period of ten years and the District has the option to renew the lease for an additional ten years after the initial expiration of the lease. The lease requires monthly payments of \$500. The future minimum lease payments are as follows:

2006 .....	\$    6,000
2007 .....	6,000
2008 .....	6,000
2009 .....	6,000
2010 .....	6,000
Thereafter.....	3,500
	<hr/>
	<b>\$    33,500</b>

**NOTE 8:     RETIREMENT PLANS**

► *Plan Descriptions*

The Todd County Water District participates in the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2005**

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**NOTE 8: RETIREMENT PLANS (Continued)**

► *Funding Policy*

CERS plan members are required to contribute 5.00% of their covered salary. The District is required to contribute to the CERS. The contribution rate is actuarially determined. The current rate for CERS is 10.98% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended December 31, 2005, 2004 and 2003 were \$23,752, \$17,035 and \$16,431, respectively, equal to the required contributions for each year.

**NOTE 9: RISK MANAGEMENT**

The District is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries insurance for all risks of loss, including worker's compensation, general liability and property loss insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

# **Required Supplemental Information**

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended December 31, 2005**

	Budgeted Amounts			Variances Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Water services.....	\$1,464,000	\$1,464,000	\$ 1,472,342	\$ 8,342
Other .....	100,000	100,000	54,809	(45,191)
TOTAL REVENUES	1,564,000	1,564,000	1,527,151	(36,849)
EXPENSES				
Payroll.....	279,780	279,780	318,888	(39,108)
Purchased water .....	506,600	506,600	645,354	(138,754)
Transmission and distribution.....	71,400	71,400	16,009	55,391
Office supplies and postage .....	37,850	37,850	35,223	2,627
Depreciation .....	280,000	280,000	250,254	29,746
Other.....	342,480	342,480	136,359	206,121
TOTAL EXPENSES	1,518,110	1,518,110	1,402,087	116,023
OPERATING INCOME	45,890	45,890	125,064	79,174
NONOPERATING REVENUE (EXPENSES)				
Grant proceeds .....	0	0	236,402	236,402
Interest income.....	25,000	25,000	12,313	(12,687)
Debt service and facility reserve — City of Elkton.....	57,640	57,640	57,640	0
Interest expense.....	(168,910)	(168,910)	(166,833)	2,077
TOTAL NONOPERATING REVENUE (EXPENSES)	(86,270)	(86,270)	139,522	225,792
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(40,380)	(40,380)	264,586	304,966
CAPITAL CONTRIBUTIONS .....	45,000	45,000	51,820	6,820
CHANGE IN NET ASSETS	4,620	4,620	316,406	311,786
NET ASSETS — BEGINNING .....	3,584,351	3,584,351	3,584,351	0
NET ASSETS — ENDING	\$ 3,588,971	\$ 3,588,971	\$ 3,900,757	\$ 311,786



# **Supplemental Information**

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2005**

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FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed-Through Kentucky Rural Development:			
Water and Waste Water Program .....	10.760	—	\$ 986,243
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>986,243</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 986,243</b>

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2005**

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**NOTE 1:      BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the ***Todd County Water District*** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



**Holland CPAs**  
Professional Service Corporation

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Commissioners  
Todd County Water District  
Elkton, Kentucky

We have audited the financial statements of the **Todd County Water District**, a component unit of Todd County, Kentucky, as of and for the year ended December 31, 2005, and have issued our report thereon dated February 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **Todd County Water District's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **Todd County Water District's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-1.

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167 South Main Street  
Russellville, KY 42276  
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the **Todd County Water District**, in a separate letter dated February 7, 2006.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Todd County Water District's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 05-1. We also noted certain additional matters that we reported to management of the **Todd County Water District** in a separate letter dated February 7, 2006.

This report is intended solely for the information and use of the Commissioners, management and federal and state agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Holland CPAs, PSC*

Bowling Green, Kentucky  
February 7, 2006



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Commissioners  
Todd County Water District  
Elkton, Kentucky

● **Compliance**

We have audited the compliance of **Todd County Water District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

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program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Holland CPAs, PSC*

Bowling Green, Kentucky  
February 7, 2006

**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2005**

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**SECTION I — SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that  
are not considered to be material  
weakness(es)? ☒ Yes ☐ None reported

Noncompliance material to financial  
statements noted? ☒ Yes ☐ No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that  
are not considered to be material  
weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on  
compliance for major programs: unqualified

Any audit findings disclosed that are required  
to be reported in accordance with section  
510(a) of Circular A-133? ☐ Yes ☒ No



**TODD COUNTY WATER DISTRICT**  
**A COMPONENT UNIT OF TODD COUNTY, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**For the Year Ended December 31, 2005**

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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Water Systems

Dollar threshold used to distinguish  
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

**SECTION II — FINANCIAL STATEMENT FINDINGS**

**05-1 Cash Collateralization**

**Observation:** The District's internal control system does not provide for a method of tracking the adequacy of the value of securities pledged by financial institutions to collateralize the District's deposits and investments in excess of FDIC insurance limits. Consequently, at December 31, 2005, the District's bank balances included \$385,326 of deposits that were uninsured and uncollateralized.

**Recommendation:** We recommend that management establish a system to monitor the sufficiency of collateral pledges no less frequently than monthly.

**Management Response:** We will monitor the collateral pledges monthly to prevent this from happening again.

**SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.